

Internal Audit of Year-End Processes:

Prior Audit Findings

Audit Program

Description

Financial, compliance, and performance audits performed by the Office of the Auditor General (or their contractors) often disclose findings related to the adequacy of the State of Michigan's system of internal controls. While there is a formal process to ensure that necessary corrective actions are planned, the Internal Auditor should monitor the completion of appropriate and timely corrective actions. This responsibility also extends to any material findings identified through management's internal control evaluations.

Related to the year-end process, it is critical for the Internal Auditor to determine if there are:

- (1) Material internal control deficiencies that could impact the accuracy of departmental financial schedules and potentially the State of Michigan Comprehensive Annual Financial Report (SOMCAFR), and
- (2) Any questioned costs reported to the federal government that may result in a disallowance of federal financial assistance.

The Internal Auditor should review the status of corrective actions on all audit citations as well as the status of any negotiations with federal grantors associated with questioned costs. Based on this review, the Internal Auditor should advise both the Chief Financial Officer (CFO) and Department Director on any necessary disclosures to include in the department's representation letter.

Objectives

1. Determine that the department has procedures in place to resolve and report on the status of corrective actions and questioned costs related to audit findings reported by the Office of the Auditor General (OAG) or their contractors.
2. Determine the status of resolution process for all questioned costs reported by the OAG or their contractors.
3. Determine the progress of the department's repayment efforts to federal grantor agencies for disallowed costs.
4. Determine there are procedures/processes to initiate corrective actions to address any material deficiencies identified by departmental staff, including via internal audit projects.
5. Determine if material findings have been disclosed that will likely be reported for audit in progress.

Technical References

- Administrative Guide to State Government –Procedures 1270.01; 1270.02; 1280.01; and 1280.02
- Statement on Auditing Standards 19 (AU Section 333)
- Annual Letter to Department Director (from State Budget Director) requesting a letter of representations regarding the department's internal controls, financial transactions, and accounting records

Audit Steps

1. Review the status of corrective actions related to audit findings reported by the OAG or their contractors.
2. Review the status of resolution process for all questioned costs reported by the OAG or their contractors. If amounts were disallowed by the federal grantor agency, determine the progress of the department's repayment efforts.
3. Review management's internal control evaluation efforts. Determine if corrective actions have been initiated to address any material deficiencies identified by departmental staff (or via your internal audit projects).
4. If audits are in process, determine if material findings have been disclosed that will likely be reported.

Advise the CFO and department director of your findings for consideration in preparing the management representation letter.